

**Letter Report: The Taxpayer Repeater  
Indicator Should Be Reprogrammed  
or Eliminated**

**November 2000**

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**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

November 14, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Letter Report - The Taxpayer Repeater Indicator Should Be Reprogrammed or Eliminated

This report presents the results of our review of the Taxpayer Repeater Indicator. In summary, we found the Taxpayer Repeater Indicator, designed to mark taxpayer accounts when taxpayers have not filed a tax return or paid taxes for more than one tax period, was not working as intended. The Internal Revenue Service (IRS) is allowed to mark a taxpayer as a nonfiler, but any such marking must be removed once the taxpayer has filed and paid all of his or her taxes for 2 consecutive years. This Indicator is shown on IRS computer systems and may influence employees' treatment of taxpayers.

We recommend that the IRS either reprogram the indicator to accurately reflect the status of taxpayers' accounts, or eliminate the indicator to minimize inaccurate marking of taxpayers' accounts. Management's response was due on October 23, 2000. As of November 06, 2000, management had not responded to the draft report.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions, or your staff may call Walter Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 936-4590.

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### Objectives and Scope

*The IRS marks the accounts of taxpayers with a Taxpayer Repeater Indicator if they have not filed a return or paid taxes owed.*

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98)<sup>1</sup> included a provision that allowed the IRS to designate taxpayers as “nonfilers”<sup>2</sup> as long as the designation is removed after taxpayers file and pay all taxes for 2 consecutive years. Prior to 1998, the IRS had designed the Taxpayer Repeater Indicator<sup>3</sup> to mark taxpayers’ accounts if they have not filed a tax return or paid taxes owed for more than 1 tax year.

Our objectives were to determine if the Taxpayer Repeater Indicator was working properly and if the IRS’ use of this Indicator was in compliance with the law. To accomplish this, we:

- Discussed the use of the Indicator with employees and managers at the National Headquarters and in one tax return processing center.
- Discussed computer programming with National Headquarters programmers and reviewed programming documentation for the Indicator.
- Identified 4.7 million taxpayer accounts from the IRS’ primary computer system, commonly referred to as the Masterfile, that were marked with the Taxpayer Repeater Indicator as of August 28, 1999. At the time we identified these accounts, 1.3 million did not have a tax period meeting the criteria that would have warranted the Indicator. Therefore, we believed that these accounts would be the most likely to have an incorrect Indicator. We analyzed a sample of 50 of the 1.3 million accounts and

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685.

<sup>2</sup> Taxpayers who have not filed one or more tax returns that are due.

<sup>3</sup> An indicator, shown on IRS computer systems, designed to mark taxpayers’ accounts if they have not filed a return or paid taxes owed for more than 1 tax year.

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determined whether the taxpayer accounts were marked properly.

- Identified taxpayer accounts on two secondary computer systems that are used by the IRS to control cases involving delinquent tax returns and payments. On the first system, we identified 1,889 accounts with an Indicator and only 1 tax period on the system and reviewed a sample of 37 accounts. On the second system, we reviewed six accounts to determine if and how the Indicator was reflected. We reviewed the 43 accounts from these 2 systems to determine how the Taxpayer Repeater Indicator information appeared to employees using these 2 systems and the Integrated Data Retrieval System, another computer system used by IRS employees to research taxpayers' accounts.
- Obtained a legal opinion from the Treasury Inspector General for Tax Administration Office of the Chief Counsel regarding the IRS' use of the Taxpayer Repeater Indicator.

We conducted our review from October 1999 through April 2000. This audit was performed in accordance with *Government Auditing Standards*.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

### Background

*We identified approximately 4.7 million individual taxpayer accounts marked with the Indicator.*

As of August 28, 1999, approximately 4.7 million individual taxpayer accounts were marked with the Taxpayer Repeater Indicator on the IRS' Masterfile. The presence of this Indicator caused comments to appear on various IRS secondary computer systems used by employees working with taxpayer accounts. For example, taxpayer accounts would show the term "Repeater" or the accounts would be coded to indicate that the taxpayer had repeat compliance problems.

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The Indicator on the IRS' Masterfile had various settings to differentiate between taxpayers who had not filed or paid their taxes for 1 tax year versus those who had multiple year delinquencies. The computer programming was designed to remove the Indicator once the taxpayer had complied with filing and paying requirements for 15 months.

### Results

*While the IRS was not in violation of the law, the Indicator was not working as intended.*

The Taxpayer Repeater Indicator is a potentially powerful designation, as it should identify taxpayers with repeat compliance problems. Although the IRS' use of the Taxpayer Repeater Indicator to mark nonfiler accounts was in compliance with the law, the computer programming used to apply the Indicator was not working properly to identify taxpayers with repeat compliance problems. We identified several instances where the Indicator provided IRS employees with inaccurate information.

While the IRS may have had a specific purpose for the Taxpayer Repeater Indicator in 1984 when it was first programmed, we could not identify a significant function for it today. We discussed the purpose for the Indicator with the IRS and were advised that it was available "for information only," rather than to prioritize casework.

Also, an analysis of IRS internal guidance documents showed that employees were not provided adequate direction outlining specific actions that they should take when working taxpayer accounts marked with the Taxpayer Repeater Indicator.

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### The Taxpayer Repeater Indicator Was Not Working As Intended

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*We identified taxpayer accounts that had the Indicators incorrectly applied.*

To work as intended, the Taxpayer Repeater Indicator should accurately describe taxpayers with compliance issues. However, we identified accounts that had the Indicators incorrectly applied. As a result, we concluded that the computer programming for the Indicator was not working as intended, causing taxpayers' accounts to be incorrectly marked.

For example, we identified situations in which:

- A taxpayer who had not filed a return or paid taxes owed for only 1 tax year was marked on an IRS computer system as a "Repeater." It is not appropriate to mark a taxpayer with only 1 tax year of delinquency as a "Repeater."
- Other taxpayers who should have been identified as "Repeaters," since they had not filed or paid taxes for more than 1 tax year, were marked on the Masterfile as having only 1 such delinquent tax year.
- Some taxpayers' accounts were marked with the Indicator on some IRS computer systems but not on others.

It is inappropriate to mark taxpayer accounts incorrectly, especially since this Indicator can apply to taxpayers who are nonfilers. The presence of the Indicator will cause comments to appear on various IRS computer systems. One IRS handbook refers to taxpayers with this coding by stating "Every effort should be made to bring these repeater TP's [taxpayers] current and to encourage future compliance." However, the handbook is not specific as to what these efforts or actions should include.

Although we did not test employees' behavior as it relates to the Indicator, employees using these systems could have their behavior towards taxpayers influenced by these comments.

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### Recommendation

1. If the IRS can establish a current business purpose for the Taxpayer Repeater Indicator, it should ensure that the Indicator accurately reflects the status of taxpayers' accounts on its computer systems. If the IRS cannot establish a business purpose, the Indicator should be eliminated to help minimize inaccurate marking of taxpayer accounts.

Management's Response: Management's response was due on October 23, 2000. As of November 6, 2000, management had not responded to the draft report.

### Conclusion

While the IRS was in compliance with the law with its use of the Taxpayer Repeater Indicator, the Indicator was not working as intended. We were also unable to identify a current use for this designation.

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**Appendix I**

**Major Contributors to This Report**

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**Appendix II**

**Report Distribution List**

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